

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1337-03
Bill No.: HCS for HB 627
Subject: Economic Development; Economic Development, Department of; Taxation and Revenue - General
Type: Original
Date: April 13, 2015

Bill Summary: This proposal authorizes the Manufacturing Infrastructure Investment Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	\$0 to (Unknown greater than \$15,126,608)	\$0 to (Unknown greater than \$15,136,507)	\$0 to (Unknown greater than \$15,137,990)
Total Estimated Net Effect on General Revenue	\$0 to (Unknown greater than \$15,126,608)	\$0 to (Unknown greater than \$15,136,507)	\$0 to (Unknown greater than \$15,137,990)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2 FTE	2 FTE	2 FTE

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

In response to a previous version, officials at the **Department of Economic Development (DED)** assumed §620.1920 creates the Manufacturing Infrastructure Investment Act (MIIA). MIIA allows a manufacturing company or supplier to retain up to 100% of its withholding tax if they commit to make a capital investment of at least \$75,000 per retained job, add five or more new jobs, and meet certain wage and employee benefit requirements.

A qualified manufacturing company that manufactures a new product may retain 100% withholding tax from full-time jobs at the facility for up to ten years. A qualified manufacturing company that modifies or expands the manufacture of an existing product may retain 50% of withholding tax from full-time jobs for up to seven years.

The aggregate cap for the program is \$15 million with a cap of \$10 million per qualified manufacturing company.

DED will administer this proposal and as a result 2 additional FTE will be needed to review applications, create guidelines, and conduct compliance. DED is requesting an Economic Development Specialist I and II.

DED assumes a negative fiscal impact ranging from \$0- \$15 million offset by unknown positive economic activity as a result of this proposal.

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this proposal will allow qualified manufacturing companies and suppliers to retain 50% to 100% of their withholding taxes if they are able to manufacture new products, modify or expand the manufacture of current products, or create new jobs for a period of three to five years.

The retention of the withholding taxes is capped at \$10,000,000 per qualified company, and \$15,000,000 total per calendar year, beginning 1/1/2016. Therefore, General and Total State Revenues may be reduced annually by this amount as early as FY 2017, with a reduction of approximately half this amount in FY 2016.

However, if companies are already receiving certain tax credits provided by the state, including the Missouri Works Job Training Program, the Real Property Increment Allocation Redevelopment Act, and the Missouri Downtown and Rural Economic Stimulus Act, they may not simultaneously receive the benefits awarded in this proposal. This could decrease the pool of qualified companies.

ASSUMPTION (continued)

Officials at the **Department of Revenue** and the **Joint Committee on Administrative Rules** each assume no fiscal impact from this proposal to their respective organizations.

In response to a previous version, officials from the **Office of the Secretary of State (SOS)** stated many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Oversight assumes this proposal allows a qualified manufacturing company to retain 50% of withholding tax that shall not exceed \$10,000,000 per calendar year with an aggregate cap of \$15,000,000. This proposal also allows qualified suppliers to retain all withholding tax for a period of three years but, does not have a cap. Therefore, Oversight will show the fiscal impact as \$0 to (Unknown greater than \$15,000,000)

<u>FISCAL IMPACT - State Government</u>	FY 2016 (6 Mo.)	FY 2017	FY 2018
GENERAL REVENUE			
<u>Revenue Reduction</u> - creation of the Manufacturing Infrastructure Investment Act - qualified suppliers	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Revenue Reduction</u> - creation of the Manufacturing Infrastructure Investment Act - qualified manufacturers	(\$0 to <u>\$15,000,000</u>)	(\$0 to <u>\$15,000,000</u>)	(\$0 to <u>\$15,000,000</u>)
<u>Costs</u> - Dept of Economic Development			
Personal Service	(\$69,851)	(\$84,659)	(\$85,506)
Fringe Benefits	(\$36,326)	(\$44,027)	(\$44,467)
Expenses and Equipment	<u>(\$20,431)</u>	<u>(\$7,821)</u>	<u>(\$8,017)</u>
<u>Total Costs</u> - DED	<u>(\$126,608)</u>	<u>(\$136,507)</u>	<u>(\$137,990)</u>
FTE Change - DED	2 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0 to (Unknown greater than <u>\$15,126,608</u>)	\$0 to (Unknown greater than <u>\$15,136,507</u>)	\$0 to (Unknown greater than <u>\$15,137,990</u>)
Estimated Net FTE Change on General Revenue	2 FTE	2 FTE	2 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill creates the Manufacturing Infrastructure Investment Act which authorizes companies approved by the Department of Economic Development to retain withholding taxes from specified full-time jobs. The qualified manufacturing company and the qualified supplier must file a notice of intent with the department that states the intent to create new jobs or retain current jobs and make a minimum capital investment. The department is required to either deny or approve the notice of intent within 30 days of receiving the notice of intent.

Beginning January 1, 2016, if the approved qualified manufacturing company manufactures a new product, the company may retain 100% of withholding taxes from the full-time jobs for a period of 10 years. If the qualified manufacturing company modifies or expands the manufacture of an existing product, the company may retain 50% of the withholding taxes from the full-time jobs for a period of seven years.

An approved qualified supplier may retain 100% of the withholding tax from new jobs for three years from the date of the approval. If the qualified supplier pays wages for the new jobs that are equal to or greater than 120% of the county average wage, then the qualified supplier may retain 100% of the withholding tax from new jobs for a period of five years.

The maximum amount of tax withholding that can be retained by any one qualified manufacturing company may not exceed \$10 million. The aggregate amount that can be retained by all qualified manufacturing companies may not exceed \$15 million per calendar year.

Any qualified manufacturing company that is awarded benefits may not also receive other specified tax credits. Any other benefits available to the qualified manufacturing company under any other state programs that utilizes withholding tax from the jobs at the facility must first be credited to the other state program before the applicable withholding period for benefits provided under this section begin.

This bill requires the qualified manufacturing company to enter into an agreement that memorializes the content of the notice, requirements, and consequences for failing to meet the requirements, as specified in the bill, within six months of the completion of the notice of intent. The department must provide a report to the General Assembly prior to March 1 each year that includes the names and locations of the qualified manufacturing companies and qualified suppliers, annual amount of benefits provided, estimated net state fiscal impact, and number of jobs created or retained.

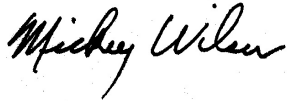
This bill will expire on December 31 six years after the effective date.

FISCAL DESCRIPTION (continued)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration's Division of Budget and Planning
Department of Economic Development
Joint Committee on Administrative Rules
Department of Revenue
Office of the Secretary of State



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Director
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April 13, 2015